

PART I

INTRODUCTION

1. Overview and Outline

*“May you live in interesting times.”
Ancient Chinese curse*

This book advances and tests a theory of why foreign corporations leave host states. Theories of international business have often ignored the complexity of corporate decisions about leaving foreign countries, generally assuming that the economic and competitive reasons that prompt multinational corporations (hereafter referred to as “multinationals”) to enter host states (such as the desire for new markets) also explain their subsequent reasons for leaving (for example, when the markets dry up, multinationals leave). Alternatively, this book proposes a theory of how different stakeholders’ values and ethics shape multinationals’ strategic leaving behaviors. Tested in South Africa when US multinationals were facing diverse pressures from stockholders, governments and consumers to leave, the research provides a prism to isolate how different stakeholders’ actions influenced multinationals’ behaviors. Detailed analyses of subsidiary-level archival data over a period of four crucial years revealed that the multinationals engaged in diverse forms of leaving reflecting their involvements, strategies and stakeholders’ influences. The research, the first to test which stakeholders’ strategies, including boycotts and sanctions, influenced multinationals and which did not, and to identify their effects on multinationals’ behaviors, has enormous implications for policy makers, managers and social activists. The book also

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applies the findings and explores implications for recent stakeholders' attempts at influencing multinationals and governments, such as Nike in Asia and Myanmar's government, through sanctions, resolutions and boycotts.

Part 2 sketches how theorists have generally portrayed multinationals as catalysts. Like catalysts, multinationals have been depicted as changing host states without substantially changing themselves. Theorists have argued that multinationals grow or decline to use intangible assets efficiently and to coordinate operations. Essentially, the multinationals' reasons for entering host states are assumed to constitute reasons for their subsequent behaviors including growth, decline or leaving. Chapter 2 reviews theories that explain the entry, growth and decline of multinationals. To decipher multinationals' behaviors, researchers have generally assumed that the multinationals employ static (as opposed to dynamic) analytical schemes, control and coordinate operations efficiently, and maintain stable relations with stakeholders. Consequently, researchers have generally argued that the reasons that prompt multinationals to enter host states also guide their subsequent growth and decline, including leaving. Chapter 3 contends that reasons for entry may not provide an adequate understanding of multinationals' subsequent behaviors. First, multinationals' analytical schemes, or how they process, codify and evaluate information, often change with experience. Second, stakeholders within multinationals may stave off managerial control and pursue their own interests; therefore, managerial control and coordination may prove illusory in reality. Finally, and partially because of the prior two reasons, multinationals' relations with key stakeholders may change over time, affecting their goals and rationales. Chapter 4 illustrates some of the issues that the theories of international business generally address and ignore. Using seven multinationals in apartheid-practicing South Africa as examples, this chapter summarizes how existing theories failed to predict or even to explain why the multinationals maintained, decreased or increased investments in South Africa.

Part 3 proposes that rather than catalysts, multinationals appear as chameleons. Like chameleons, multinationals change in response to environmental conditions. The changes help to maintain homeostatic equilibrium or stability in a system that includes headquarters and subsidiaries.

Stakeholders form major parts of multinationals' environments and their actions, ethics and values in home and host states affect managerial strategies at both headquarters and subsidiaries. These actions, ethics, values and strategies act and react in a system incorporating minor changes and frictions to display overall identifiable continuity, especially in values. For example, headquarters' managers may use competitive and noncompetitive strategies that articulate established goals, change the multinational, and yet maintain the participation and support of key stakeholders. Also, subsidiaries' managers may use symbolic strategies to placate key stakeholders with divergent ethics or values, and again maintain their participation and support. However, under some circumstances, stakeholders' ethics and values may differ so significantly from those of managers that the latter groups' strategies and symbolic efforts may prove insufficient to maintain support. These stakeholders would then induce disequilibria in the system and its disintegration. In South Africa, and elsewhere, decisions on leaving and in what form the leaving would be carried out, reflect managerial efforts to reinstate equilibrium or stability in the system; they also reflect stakeholders' power or lack of it. Chapter 5 indicates how the growth, consolidation, and decline of multinationals constitute phases in organizational development emphasizing diverse stakeholders' values and goals. The chapter also reviews contributing technical-efficiency, ideological and political forces that induce changes in relations with major stakeholders over time. Chapter 6 develops the metaphor of multinationals as chameleons. Like chameleons, multinationals fluctuate and respond to their environments; like chameleons, multinationals change from both purposive and reflex actions; and like chameleons, multinationals have limited abilities to change and simultaneously to maintain their integrity in different environments. A political-action framework captures the growth, consolidation, and decline of multinationals in host states. Several sets of hypotheses propose to test the theory on US multinationals in South Africa including the conditions and forms of their leaving.

Part 4 covers the sample and analysis of the data as well as the results. Case studies and interviews yielded seven forms of growth and decline (including leaving) of multinationals from South Africa. The theory is tested

on the population of 322 US multinationals in South Africa from 1982 to 1987. Eleven sets of variables (about five variables per set and two indicators per variable) made the theory operational. Readers, who wish to avoid the technical details in this section, may skip to the summary sub-sections for quick overviews. Chapter 7 provides details on the setting, the time frame, the population and the sets of variables to be tested. At least three sources of data existed for each variable — a main source, a source to crosscheck data and a source to resolve discrepancies. Chapter 8 provides information on the analytical procedures used to test the hypotheses including logistic regression and linear regression analyses with lagged independent variables and pooled cross-sections. These techniques reflect the time frame of the study, the population's attrition over the period under study and the diverse scales that measured the variables. The chapter highlights the significant results and discusses their generalizability.

Finally, Part 5 focuses on the theoretical and strategic implications of this research. Stakeholders, including governments, consumers and stockholders continue to use sanctions against multinationals to influence their behaviors in host states and to align these behaviors with stakeholders' values and ethics. Yet, this research reveals that stakeholders' actions did not have the desired results (indeed stockholders' resolutions seemed to have influenced multinationals to stay in South Africa) and that extraneous circumstances, such as regulation, may have greatly influenced multinationals' behaviors. Significant differences seemed to distinguish the variables that explained leaving and staying actions in periods of more and less regulation. Accumulated social legitimacy also seemed to influence strongly multinationals' actions to stay in or to leave South Africa. Chapter 9 outlines the main results of the research on multinationals in South Africa confirming the important effects of social legitimacy, profits and some competitive strategies for multinationals' strategic behaviors. In the period of no regulation, as hypothesized, more symbolic actions, higher profits and lower order backlogs influenced whether multinationals stayed in South Africa. In the period of regulation, as hypothesized, greater advertising and less product diversification influenced whether multinationals stayed in South Africa. The chapter suggests some contributions that a theory of multinationals as

chameleons may make to international-business and to management theories as well as explores different policy implications and repercussions. Using stakeholders' protests against Nike's Asian operations and against Myanmar's violations of human rights as examples, this chapter highlights some circumstances in which stakeholders can influence multinationals to leave foreign countries, and other circumstances in which managers may stave off the threats.